

CITY OF CONRAD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2008

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CITY OF CONRAD

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Gregg Sharp	Mayor	Jan. 2008
LeAnn Lynch	Mayor Pro tem	Jan. 2010
Shauna Calloway	Council Member	Jan. 2008
Lowell Schleisman	Council Member	Jan. 2008
Gary Stattler	Council Member	Jan. 2008
Bill Gearhart	Council Member	Jan. 2010
Denise Hoy	Clerk/Treasurer	Indefinite
Kirby Schmidt	Attorney	Indefinite
(After December 2007)		
Gregg Sharp	Mayor	Jan. 2010
LeAnn Lynch	Mayor Pro tem	Jan. 2010
Bill Gearhart	Council Member	Jan. 2010
Lowell Schleisman	Council Member	Jan. 2012
Gary Stattler	Council Member	Jan. 2012
Sue McLeland	Council Member	Jan. 2012
Denise Hoy	Clerk/Treasurer	Indefinite
Kirby Schmidt	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Conrad's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad as of June 30, 2008, and the respective changes in cash

basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2008 on our consideration of the City of Conrad's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Conrad's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2007 as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa


Dietz, Donald & Company, CPAs
FEIN 42-1172392

December 12, 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Conrad provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. The reader should keep in mind that any comparative data provided has not been audited.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 82.3%, or approximately \$ 1.050 million, from fiscal 2007 to fiscal 2008. Capital grants, donations and restricted interest increased approximately \$ 110,000 and bond proceeds increased \$ 984,000.
- Disbursements of the City's governmental activities increased 187.8% or approximately \$ 1.663 million, in fiscal 2008 from fiscal 2007. Community and economic development, debt service and capital projects disbursements increased approximately \$ 62,000, \$ 279,000 and \$ 1.234 million, respectively.
- The City's total cash basis net assets decreased nearly 16%, or approximately \$ 222,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$ 227,000 while the assets of the business type activities increased approximately \$ 5,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the

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short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's debt.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, [c] the Debt Service Fund and, [d] the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 1.350 million to \$ 1.123 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Years Ended June 30,	
	<u>2008</u>	<u>2007</u>
Receipts		
Program receipts		
Charges for service	\$ 116	121
Operating grants, contributions, and restricted		
Interest	121	134
Capital grants, contributions, and restricted		
Interest	464	355
General receipts		
Property tax	494	496
Local option sales tax	68	71

Unrestricted interest on investments	34	36
Bond proceeds	984	-
Other general receipts	<u>43</u>	<u>64</u>
Total receipts	<u>\$ 2,324</u>	<u>1,277</u>
Disbursements		
Public safety	88	80
Public works	151	116
Health and social services	4	2
Culture and recreation	205	167
Community and economic development	154	92
General government	62	58
Debt service	376	97
Capital projects	<u>1,508</u>	<u>274</u>
Total disbursements	<u>2,548</u>	<u>886</u>
Change in cash basis net assets before transfers	[224]	391
Transfers, net	<u>[3]</u>	<u>[86]</u>
Change in cash basis net assets	[227]	305
Cash basis net assets beginning of year	<u>1,350</u>	<u>1,045</u>
Cash basis net assets end of year	<u>\$ 1,123</u>	<u>1,350</u>

The City's total receipts for governmental activities increased 82.1% or approximately \$ 1.047 million. The total cost of all programs and services increased approximately \$ 1.662 million, or 188%, with the library building capital project being the one new program this year. The significant increase in receipts was primarily the results of proceeds received from the issuance of urban renewal tax increment financing revenue bonds.

The City increased property tax rates for 2008 by an average of 8 percent. This increase raised the City's property tax receipts approximately \$ 25,000 in 2008. Based on increases in rates, property tax receipts are budgeted to increase an additional \$ 10,000 next year.

The cost of all governmental activities this year was \$ 2.548 million compared to \$ 886,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 1.846 million because some of the cost was paid by those directly benefited from the programs (\$ 116,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 585,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service increased in 2008 from approximately \$ 610,000 to approximately \$ 701,000,

principally due to receiving \$ 104,000 more in grants for the library building in 2008. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 562,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and bond proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2008	2007
Receipts		
Program receipts		
Charges for service		
Water	\$ 81	87
Sewer	203	200
Total receipts	<u>284</u>	<u>287</u>
Disbursements		
Water	96	91
Sewer	<u>186</u>	<u>294</u>
Total disbursements	<u>282</u>	<u>385</u>
Change in cash basis net assets before transfers	2	[98]
Transfers, net	<u>3</u>	<u>86</u>
Change in cash basis net assets	5	[12]
Cash basis net assets beginning of year	<u>80</u>	<u>92</u>
Cash basis net assets end of year	<u>\$ 85</u>	<u>80</u>

The business type activities receipts for the fiscal year were \$ 284,000 compared to \$ 287,000 last year. The cash balance increased by approximately \$ 5,000. Total disbursements for the fiscal year decreased 26.7% to a total of \$ 282,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Conrad completed the year, its governmental funds reported a combined fund balance of \$ 1,123,211, a decrease of nearly \$ 227,000 from last year's total of \$ 1,350,042. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$ 70,170 from the prior year to \$ 601,171.

Receipts decreased \$ 12,000 from last year and disbursements increased nearly \$ 77,000. Culture and recreation disbursements increased nearly \$ 37,000, as a result of almost \$ 24,000 being spent on park improvement projects and a \$ 13,000 increase in library spending.

- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. Receipts for fiscal year 2008 totaled \$ 159,990 as compared to \$ 187,362 in the previous year. Those proceeds will be used for various construction and refurbishing projects within the urban renewal district.
- The Capital Projects, Library Building Fund, had disbursements of \$ 1,507,967 which were primarily funded by the issuance of \$ 984,000 of urban renewal tax increment financing revenue bonds, \$ 190,029 of grants, \$ 259,583 of donations, \$ 47,261 of tax increment financing collections and \$ 14,823 of interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 15,911, leaving the Water Fund with a balance of \$ 24,171. Receipts for 2008 were \$ 80,580, \$ 6,785 less than in 2007.

The Sewer Fund cash balance increased \$ 20,455, leaving the Sewer Fund with a balance of \$ 60,298. Receipts for 2008 were \$ 203,527, \$ 3,635 more than in 2007.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment was approved June 12, 2008. Total disbursements were increased by \$ 1,134,068, including \$ 824,860 to increase budgeted disbursements for completion of the library building and \$ 193,739 for early retirement of tax increment financing debt.

The City's receipts were \$ 9,710 more than budgeted.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$ 1,996,725 in long-term debt outstanding, compared to \$ 1,402,190 last year, as shown below. In addition, the City is committed to \$ 57,006 in developer tax rebates over the next two years.

Outstanding Debt at Year-End
(Expressed in Thousands)

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
General Obligation Bonds	\$ 233	291
Urban Renewal Tax Increment Financing Revenue Bonds	825	104
Revenue notes	<u>939</u>	<u>1,007</u>
Total	<u>\$ 1,997</u>	<u>1,402</u>

The City issued \$ 1,000,000 of urban renewal tax increment financing revenue bonds for construction of the library building. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1.115 million is significantly below its constitutional debt limit of \$ 2.726 million.

ECONOMIC FACTORS AND NEXY YEAR'S BUDGET AND RATES

The City of Conrad's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities.

The City has experienced some growth. City population has increased over 13% over the last thirty years. However, July 1, 2007 taxable valuations were actually 0.5% less than the July 1, 2006 taxable valuations.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$ 1.057 million, a decrease of 58.8% under the amended fiscal 2008 budget. Budgeted bond proceeds decreased by \$ 984,000 from 2008 to 2009. Budgeted disbursements are expected to decrease by approximately \$ 1.836 million. Capital projects disbursements are expected to decrease \$ 1.515 million. The City added no major programs or initiatives to the 2009 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 36,000 by the close of 2009.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise Hoy; 204 East Center Street; Conrad, Iowa 50621-0429.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF CONRAD
STATEMENT OF ACTIVITIES AND NET ASSETS—CASH BASIS
As of and for the Year Ended June 30, 2008

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	for Service	Charges	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 87,834	19,408	3,400	-	(65,026)	-	(65,026)
Public works	150,987	13,562	97,918	-	(39,507)	-	(39,507)
Health and social services	3,644	-	-	-	(3,644)	-	(3,644)
Culture and recreation	205,402	55,307	9,702	-	(140,393)	-	(140,393)
Community and economic development	153,957	-	9,964	-	(143,993)	-	(143,993)
General government	62,311	4,269	-	-	(58,042)	-	(58,042)
Debt service	376,067	21,331	-	-	(354,736)	-	(354,736)
Capital projects	1,507,967	2,445	-	464,435	(1,041,087)	-	(1,041,087)
Total governmental activities	2,548,169	116,322	120,984	464,435	(1,846,428)	-	(1,846,428)
Business type activities:							
Water	96,491	80,580	-	-	-	(15,911)	(15,911)
Sewer	185,806	203,527	-	-	-	17,721	17,721
Total business type activities	282,297	284,107	-	-	-	1,810	1,810
Total	\$ 2,830,466	\$ 400,429	\$ 120,984	\$ 464,435	\$ (1,846,428)	\$ 1,810	\$ (1,844,618)
General Receipts:							
Property and other city tax levied for:							
General purposes							
Tax increment financing							
Debt service							
Local option sales tax							
Contributions not restricted to specific purposes							
Unrestricted interest on investments							
Bond proceeds							
Miscellaneous							
Sale of assets							
Transfers							
Total general receipts and transfers							
Change in cash basis net assets							
Cash basis net assets beginning of year							
Cash basis net assets end of year							
Cash basis Net Assets:							
Restricted							
Urban renewal purposes							
Library building							
Streets							
Debt service							
Other purposes							
Unrestricted							
Total cash basis net assets							

See notes to financial statements.

CITY OF CONRAD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2008

Exhibit B

	General	Special Revenue	Capital Projects	Library Building	Nonmajor	Total
Receipts:						
Property tax	\$ 241,100	-	-	-	92,474	333,574
Tax increment financing	-	159,990	-	-	-	159,990
Other city tax	4,233	-	-	-	67,615	71,848
Licenses and permits	2,641	-	-	-	-	2,641
Use of money and property	36,788	-	14,823	-	-	51,611
Intergovernmental	55,473	-	190,029	-	114,558	360,060
Charges for service	49,304	-	-	-	-	49,304
Special assessments	-	-	259,583	-	9,567	269,148
Miscellaneous	9,865	-	464,435	-	284,214	1,308,043
Total receipts	399,404	159,990	464,435	284,214	1,308,043	
Disbursements:						
Operating:						
Public safety	86,485	-	-	-	1,349	87,834
Public works	18,580	-	-	-	132,407	150,987
Health and social services	3,644	-	-	-	-	3,644
Culture and recreation	195,371	-	-	-	10,031	205,402
Community and economic development	42,987	56,786	-	-	54,184	153,957
General government	58,967	-	-	-	3,344	62,311
Debt service	-	303,288	-	-	72,779	376,067
Capital projects	-	-	1,507,967	-	-	1,507,967
Total	406,034	360,074	1,507,967	274,094	2,548,165	
Excess (deficiency) of receipts over (under) disbursements	(6,630)	(200,084)	(1,043,532)	10,120	(1,240,126)	
Other financing sources (uses):						
Bond proceeds	-	-	984,000	-	-	984,000
Sale of capital assets	32,029	193,739	241,000	-	-	32,029
Operating transfers in	44,771	(241,000)	(193,739)	(47,505)	-	(482,244)
Operating transfers out	-	(47,261)	1,031,261	(47,505)	-	1,013,295
Total other financing sources (uses)	76,800	(247,345)	(12,271)	(37,385)	-	(226,831)
Net change in cash balances	70,170	248,792	396,598	173,651	1,350,042	
Cash balances beginning of year	531,001	1,447	384,327	136,266	1,123,211	
Cash balances end of year	\$ 601,171	-	-	44,111	44,111	
Cash Basis Fund Balances:						
Reserved for debt service	\$ -	-	-	-	-	601,171
General fund	601,171	1,447	-	-	92,155	93,602
Special revenue funds	-	-	384,327	-	-	384,327
Capital projects fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 601,171	1,447	384,327	136,266	1,123,211	

See notes to financial statements.

CITY OF CONRAD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2008

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 80,580	203,527	284,107
Operating disbursements:			
Business type activities	96,491	77,829	174,320
Excess (deficiency) of operating receipts over (under) operating disbursements	(15,911)	125,698	109,787
Non-operating disbursements:			
Debt service	-	(107,977)	(107,977)
Excess (deficiency) of receipts over (under) disbursements	(15,911)	17,721	1,810
Other financing sources (uses):			
Operating transfers in	-	10,142	10,142
Operating transfers out	-	(7,408)	(7,408)
Total other financing sources	-	2,734	2,734
Net change in cash basis fund balances	(15,911)	20,455	4,544
Cash balances beginning of year	40,082	39,843	79,925
Cash balances end of year	\$ 24,171	60,298	84,469
Cash Basis Fund Balances Unreserved	\$ 24,171	60,298	84,469

See notes to financial statements.

CITY OF CONRAD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Conrad is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1886 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Conrad has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marshall County Emergency Management Commission, Marshall County Joint E911 Service Board, Grundy County Assessor's Conference Board, Grundy County Landfill Commission, Grundy County Sheriff's Office - law enforcement, and Southwest Grundy County Emergency Service Association.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and proprietary funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement cost not paid from other funds.

The Special Revenue, Urban Renewal Tax Increment Fund is used to account

for urban renewal projects financed by tax increment financing.

Capital Projects, the Library Building Fund is to account for the construction costs of the new library.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Conrad maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash**

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper;

perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. At June 30, 2008, the City had \$ 572,083 invested in certificates of deposit with maturities ranging from 47 to 151 days.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 61,489	11,290	80,000	30,748	70,000	36,809	211,489	78,847
2010	64,747	8,715	60,000	27,948	72,000	34,065	196,747	70,728
2011	68,099	5,403	90,000	25,848	75,000	31,242	233,099	62,493
2012	38,390	1,920	90,000	22,653	78,000	28,302	206,390	52,875
2013	-	-	95,000	19,368	82,000	25,245	177,000	44,613
2014-18	-	-	410,000	40,928	459,000	75,577	869,000	116,505
2019	-	-	-	-	103,000	4,038	103,000	4,038
Total	\$ 232,725	27,328	825,000	167,493	939,000	235,278	1,996,725	430,099

The urban renewal tax increment financing (TIF) revenue bonds were issued for the purpose of defraying a portion of the cost of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution approving the issuance of the sewer revenue notes under the loan agreement between the City of Conrad, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. includes the following provisions:

1. The notes will only be redeemed from the future earnings of the enterprise activity and the noteholder holds a lien on the future earnings of the funds.
2. Sufficient monthly transfers shall be made to a separate sewer revenue note sinking fund for the purpose of making the note principal and interest payments when due.
3. User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the note principal and interest falling due in the same year.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2008 were \$ 10,011, equal to the required contributions for the year.

5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 16,939
	Housing Rehabilitation	38
	Capital Projects:	
	Wolf Creek Drive	20,386
	Enterprise:	
	Sewer	<u>7,408</u>
		<u>44,771</u>

Special Revenue:	Capital Projects:	
Urban Renewal Tax	Library Building	<u>193,739</u>
Increment		
Capital Projects:	Special Projects:	
Library Building	Urban Renewal Tax Increment	<u>241,000</u>
Enterprise:	Special Revenue:	
Sewer	Local Option Sales Tax	<u>10,142</u>
Total		<u>\$ 489,652</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(6) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial coverage during the past fiscal year.

(7) Compensated Absences

City employees accumulate a limited amount of earned, but unused, vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to the General Fund totaled \$ 6,500. This liability has been computed on rates of pay in effect at June 30, 2008.

(8) Development Agreement

The City has entered into an agreement with a developer as of April 15, 1999. The City has agreed to rebate 75% of the incremental tax paid by the developer in exchange for the construction of a building to be used as an industrial facility in the Conrad Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year beginning December 1, 2000 and continuing through and including June 1, 2010. During the year ended June 30, 2008, the City rebated \$ 28,503 of incremental tax under this agreement. The estimated remaining balance at June 30, 2008 was \$ 57,006.

(9) Commitments

On February 24, 2004, the City entered into an agreement with Wolf Creek Child and Preschool, Inc. (the Organization). The City agrees that in exchange for representatives of the Organization instigating the election for the extra one percent local option sales tax levy, it is willing to use up to eighty-five percent of the funds produced by that levy to provide financial support for the Organization.

The Organization has agreed that, in exchange for receiving up to eighty-five percent of the funds produced by that levy, the Organization will continue to research and seek other funding sources such as grants, fund raisers, etc. and continue to seek and implement ways to generate revenue and control costs.

For the year ended June 30, 2008, the City gave \$ 52,482 to the Organization, which was eighty-five percent of the sales tax received. For the year ended June 30, 2009, the Organization is budgeted to receive \$ 62,525, which is again eighty-five percent of the anticipated local option sales tax levy.

(10) Subsequent Events

In October, 2008, the City accepted a \$ 34,022 bid for a new City siren.

(11) Non-cash Transactions

In February, 2008, the City exchanged the old library building at 106 Grundy Street for a building at 106 North Main and a vacant lot at 124 North Main. The deeds were subsequently given to the Conrad Development Corporation for future economic development.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CONRAD
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2008

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 333,574		-		333,574	323,266	323,266	10,308
Tax increment financing	159,990		-		159,990	149,614	149,614	10,376
Other city tax	71,848		-		71,848	71,600	71,600	248
Licenses and permits	2,641		-		2,641	2,300	2,300	341
Use of money and property	51,611		-		51,611	29,450	86,912	(35,301)
Intergovernmental	360,060		-		360,060	131,405	347,351	12,709
Charges for service	49,304		284,107		333,411	338,711	333,548	(137)
Special assessments	9,567		-		9,567	2,445	2,445	7,122
Miscellaneous	269,448		-		269,448	1,900	265,404	4,044
Total receipts	1,308,043		284,107		1,592,150	1,050,691	1,582,440	9,710
Disbursements:								
Public safety	87,834		-		87,834	89,028	92,428	4,594
Public works	150,987		-		150,987	197,618	206,094	55,107
Health and social services	3,644		-		3,644	3,800	3,800	156
Culture and recreation	205,402		-		205,402	185,961	211,490	6,088
Community and economic development	153,957		-		153,957	106,703	156,502	2,545
General government	62,311		-		62,311	62,673	64,673	2,362
Debt service	376,067		-		376,067	182,570	376,309	6,734
Capital projects	1,507,967		-		1,507,967	689,841	1,514,701	20,348
Business type activities	-		282,297		282,297	276,380	302,645	26,265
Total disbursements	2,548,169		282,297		2,830,466	1,794,574	2,928,642	98,116
Excess (deficiency) of receipts over (under) disbursements	(1,240,126)		1,810		(1,238,316)	(743,883)	(1,346,202)	107,886
Other financing sources, net	1,013,295		2,734		1,016,029	-	984,000	32,029
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(226,831)		4,544		(222,287)	(743,883)	(362,202)	139,915
Balances beginning of year	1,350,042		79,925		1,429,967	1,359,807	1,429,970	(3)
Balances end of year	\$ 1,123,211		\$ 84,469		\$ 1,207,680	\$ 615,924	\$ 1,067,768	\$ 139,912

See accompanying independent auditor's report.

CITY OF CONRAD
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Funds, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 1,134,068. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF CONRAD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NOMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2008

	Special Revenue				Capital Projects		
	Road Use Tax	Employee Benefits	Local Option Sales Tax	Housing Rehabilitation	Debt Service	Wolf Creek Drive	Total
Receipts:							
Property tax	\$ -	43,935	-	-	48,539	-	92,474
Other city tax	-	-	67,615	-	-	-	67,615
Use of money and property	-	-	-	-	-	-	-
Intergovernmental	90,385	-	-	9,964	14,209	2,445	114,558
Special assessments	-	-	-	-	7,122	-	9,567
Total receipts	90,385	43,935	67,615	9,964	69,870	2,445	284,214
Disbursements:							
Operating:							
Public safety	\$ -	1,349	-	-	-	-	1,349
Public works	121,953	10,454	-	-	-	-	132,407
Culture and recreation	-	10,031	-	-	-	-	10,031
Community and economic development	-	1,702	52,482	-	-	-	54,184
General government	-	3,344	-	-	72,779	-	72,779
Debt service	-	-	-	-	72,779	-	72,779
Total disbursements	121,953	26,880	52,482	-	145,558	-	274,094
Excess (deficiency) of receipts over (under) disbursements	(31,568)	17,055	15,133	9,964	(2,909)	2,445	10,120
Other financing uses:							
Operating transfers out	-	(16,939)	(10,142)	(38)	-	(20,386)	(47,505)
Net change in cash balances	(31,568)	116	4,991	9,926	(2,909)	(17,941)	(37,385)
Cash balances beginning of year	99,972	1,601	17,043	(9,926)	47,020	17,941	173,651
Cash balances end of year	\$ 68,404	1,717	22,034	-	44,111	-	136,266
Cash Basis Fund Balances:							
Reserved for debt service	\$ -	-	-	-	44,111	-	44,111
Unreserved:							
Special revenue funds	68,404	1,717	22,034	-	-	-	92,155
Total cash basis fund balances	\$ 68,404	1,717	22,034	-	44,111	-	136,266

See accompanying independent auditor's report.

CITY OF CONRAD
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2008

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
Fire truck	Jul 1, 2001	5.25%	\$ 230,000	116,106	-	26,727	89,379	6,023
Street improvement	Apr 15, 2002	4.75	310,000	175,015	-	31,669	143,346	8,360
Total				\$ 291,121	-	58,396	232,725	14,383
Urban renewal tax increment financing (TIF) revenue bonds	Dec 15, 2000 Nov 30, 2007	5.50% 3.50-3.95%	\$ 190,721 1,000,000	104,069 -	- 1,000,000	104,069 175,000	- 825,000	5,479 18,539
Total				\$ 104,069	1,000,000	279,069	825,000	24,018
Revenue notes:								
Sewer	Apr 26, 1999	3.92%	\$ 993,612	685,000	-	46,000	639,000	26,852
Sewer	Apr 26, 1999	3.92	467,388	322,000	-	22,000	300,000	12,622
Total				\$ 1,007,000	-	68,000	939,000	39,474

See accompanying independent auditor's report.

CITY OF CONRAD
BOND AND NOTE MATURITIES
June 30, 2008

Schedule 3

Year Ending June 30,	Fire Truck		Street Improvement		Total
	Issued Jul 1, 2001	Interest	Issued Apr 15, 2002	Interest	
	Rates	Amount	Rates	Amount	
2009	5.25%	\$ 28,217	5.00%	\$ 33,272	61,489
2010	5.25	29,790	5.00	34,957	64,747
2011	5.25	31,372	5.00	36,727	68,099
2012	-	-	38,390	38,390	38,390
Total		\$ 89,379		\$ 143,346	232,725

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued Nov 30, 2007		Sewer		Revenue Notes		Total
	Interest	Amount	Issued Apr 26, 1999	Interest	Issued Apr 26, 1999	Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	
2009	3.50%	\$ 80,000	3.92%	\$ 48,000	3.92%	\$ 22,000	70,000
2010	3.50	60,000	3.92	49,000	3.92	23,000	72,000
2011	3.55	90,000	3.92	51,000	3.92	24,000	75,000
2012	3.65	90,000	3.92	53,000	3.92	25,000	78,000
2013	3.70	95,000	3.92	56,000	3.92	26,000	82,000
2014	3.75	95,000	3.92	58,000	3.92	27,000	85,000
2015	3.85	100,000	3.92	60,000	3.92	28,000	88,000
2016	3.90	105,000	3.92	62,000	3.92	29,000	91,000
2017	3.95	110,000	3.92	65,000	3.92	31,000	96,000
2018	-	-	3.92	67,000	3.92	32,000	99,000
2019	-	-	3.92	70,000	3.92	33,000	103,000
Total		\$ 825,000		\$ 639,000		\$ 300,000	939,000

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 12, 2008. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Conrad's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Conrad's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Conrad's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow

management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Conrad's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Conrad's financial statements that is more than inconsequential will not be prevented or detected by the City of Conrad's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Conrad's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe items I-A-08 and I-B-08 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Conrad's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Conrad's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the

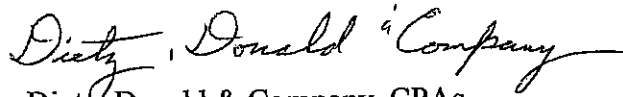
City's responses, we did not audit the City of Conrad's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Conrad and other parties to whom the City of Conrad may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Conrad during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 12, 2008


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF CONRAD
SCHEDULE OF FINDINGS
Year Ended June 30, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES;

I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One employee at the City prepares bank account reconciliations, initiates cash receipts and disbursements functions and handles and records cash.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions.

I-B-08 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

- [1] Review the adequacy of financial statement disclosures.
- [2] Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.
- [3] Apply analytical procedures to the draft financial statements.
- [4] Apply other procedures as considered necessary by the City.

Response - We will consider this.

Conclusion - Response accepted.

I-C-08 Conrad Public Library Foundation - Although the Foundation was not considered to be a component unit of the City for fiscal 2008, it is possible that the Foundation could be considered a component unit in the future, under criteria set forth by the Governmental Accounting Standards Board in Statement No. 14, The Financial Reporting Entity, as amended by Statement No. 39, Determining Whether Certain Organizations Are Component Units. Without receiving any financial information from the Foundation, it is impossible for the City to make this determination.

Recommendation - The City should at a minimum receive an annual report from the Foundation showing receipts, disbursements and cash balances using account titles similar to those in the City.

Response - We will discuss this with the Foundation.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF CONRAD
SCHEDULE OF FINDINGS
Year Ended June 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget - Disbursements for the year ended June 30, 2008 did not exceed the amounts budgeted.

II-B-08 Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursement are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
That Place	Meals for Fire Department annual meeting	\$ 265
Hometown Foods	County fire meeting	61
Hometown Foods	County fire meeting	90

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for written documentation.

Response - The City will obtain better documentation to support these expenditures as a public purpose. We will consider a written policy for this practice.

Conclusion - Response accepted.

II-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-08 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in

accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

II-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-08 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.